EXHIBIT NO. 1

30
11-25-03

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 19, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: CONSIDERATION OF REPORT OF THE AFFORDABLE HOUSING WORK GROUP AND RECOMMENDATIONS FOR THE FORMATION OF A NEW, INDEPENDENT NON-PROFIT HOUSING DEVELOPMENT ORGANIZATION

ISSUE: Consideration of recommendations from the Affordable Housing Work Group for the establishment of an independent, non-profit housing development organization.

RECOMMENDATION: That Council:

(1) Receive the report of the Affordable Housing Work Group and thank the members for their service;

(2) Endorse the formation of a new, independent housing development organization (as described in the Work Group Report), and affirm that the new organization will not be a part of, and will operate completely independently of the City;

(3) Determine a process for Council selection of five individuals who will incorporate the new organization, serve on its board of directors and select the remaining members of the new organization's board, and begin that process;

(4) Authorize the City Attorney to the degree desired by five incorporators, prepare or assist in the preparation of all necessary documents for the establishment and incorporation of the new organization; and

(5) Request that the new Board, once established, submit a first-year budget application for City Council consideration.

DISCUSSION: Earlier this year, parallel interests on the part of City Council, City staff, a new citizen organization called Housing Action, and the Alexandria Interfaith Association housing were combined, resulting in the formation of an Affordable Housing Work Group to explore and make recommendations as to the best means of producing affordable housing in Alexandria, and whether to form a new entity to do so.

The resulting Work Group, chaired by former Alexandria Mayor Kerry Donley, includes representation from the City, Housing Action, the Affordable Housing Advisory Committee, the Alexandria Chamber of Commerce, the Alexandria Interfaith Association, the Alexandria Black Ministers' Conference, the non-profit sector, the private development community, and housing clients/consumers. The Work Group held seven meetings from July through November 2003 to determine the most appropriate vehicle for affordable housing production, define its mission, propose a budget and identify possible sources of funding, and propose projects that it might undertake. The attached Affordable Housing Work Group Report (Attachment I) contains the group's recommendations. The Work Group's membership and the Charge to the Work Group appear as Attachments A and B to the Work Group's report.

The Affordable Housing Work Group is recommending the establishment of a new, independent, non-profit housing development organization whose mission will be to produce and preserve affordable housing in Alexandria primarily, but not limited to, multifamily rental housing. Housing provided through the efforts of this organization will be expected to remain affordable in perpetuity. The proposed target groups and types of activity are outlined in the report (page 2).

Although the group reviewed information on older properties and potential redevelopment sites in the City, it has chosen not to list specific potential projects for fear that such identification may serve to drive up the cost of acquisition. However, staff will work with the new board to identify specific development opportunities.

Recognizing that it takes considerable time for a new organization to become established and successful, the Work Group recommends that the new board initially hire only an executive director and administrative support staff person, and contract with an existing organization for development services. Such services could include appraisals, comparative market analyses and development pro formas. In addition, the new organization would undertake particular development projects in partnership with other organizations, not necessarily the one with which it contracts for development services.

It is anticipated that the City will be the primary source of operating funds for the new entity during its initial years. Attachment D to the Work Group report summarizes the capital fund that will be available to the new organization. The report contains an illustrative first year budget. The illustrative budget (Attachment C, page 9 of Report) identifies approximately $144,000 in personnel and $179,000 in non-personnel costs for the new organization's first full year of operations (assuming free space can be obtained). However, in keeping with the consensus of the Work Group, it is recommended that once established, the board of directors for the new organization review this budget, make its own decisions, and submit a first-year budget proposal for City Council consideration.

As proposed by the Work Group, the organization would be governed by a board of directors consisting of nine to 13 Alexandria residents and qualified non-residents who, in the aggregate, and without having designated seats, possess the following attributes:

- background/experience in the housing industry, e.g., development, real estate, architecture, construction, affordable housing programs, etc.

- background/experience in the financing industry
- background/experience in other areas of the private sector
- active involvement in the faith community, as evidenced by endorsement by a faith institution or other faith-based organization
- active involvement in community/civic/service organizations (evidenced by endorsement by such organizations)

As envisioned by the Work Group, the organization's board members would serve staggered three-year terms, however, initial terms of three to five years are recommended in order to maintain continuity during the organization's formative stages. In addition, the Work Group strongly recommends that no elected City official serve as a voting member of the Board because of potential conflicts of interest in land use and funding decisions. However, a City representative may serve as a non-voting ex officio member, and would not be counted toward the nine to 13 members noted above.

Council action is requested at this time for the purpose of endorsing the concept of the new organization and selecting five individuals who would cause the organization to be incorporated, and serve on the new composition's board of directors. These five board members would then appoint the remainder of the board. There was considerable discussion among Work Group members as to the method of selecting members of the incorporating board. While some favored a process by which Council would interview the candidates, others felt that an interview process might dissuade some qualified candidates from applying. In the end, the Board left the method of selection to be determined by Council. However, whatever method is chosen, it is anticipated that housing advocates and other interested parties will actively recruit qualified applicants.

I fully support the recommendations of the Affordable Housing Work Group, and further recommend, pursuant to discussions held by the Work Group, that Council authorize the City Attorney to prepare, or assist, to the degree desired by the five incorporators, in the preparation of all necessary documents for the establishment and incorporation of the new organization.

I urge Council to select the five incorporators of the new organization as soon as possible, and no later than December 31, so that the new organization can be established and additional board members can be elected in January, and support staff can be hired no later than April 1.

ATTACHMENT: Affordable Housing Work Group Report

STAFF:
Mildrilyn Davis, Director, Office of Housing
Bob Eiffert, Deputy Director, Office of Housing

ATTACHMENT

AFFORDABLE HOUSING WORK GROUP REPORT

INTRODUCTION

In response to an inquiry from then-Councilman Bill Euille and Councilwoman Joyce Woodson, the City Manager issued a memorandum on April 8, 2003, proposing that the City establish a non-profit housing development corporation. At the same time, a group of concerned citizens formed a new organization called Housing Action to investigate ways to provide affordable housing in Alexandria. Rather than move ahead with the City Manager's proposal, staff brought together representatives from Housing Action and the Alexandria Interfaith Association to meet in June with then-Mayor Kerry Donley, then-Councilman Bill Euille, City Manager Phil Sunderland, and Housing Director Mildrilyn Davis. The group decided to form an Affordable Housing Work Group to explore and make recommendations as to the best means of producing affordable housing in Alexandria, and whether to form a new entity to do so. This group established a subcommittee that determined the composition of the Work Group organization. The resulting Work Group, chaired by former Mayor Donley, includes representation from the City, Housing Action, the Affordable Housing Advisory Committee, Alexandria Chamber of Commerce, the Alexandria Interfaith Association, the Alexandria Black Ministers Association, the non-profit sector, the private development community, and housing clients/consumers. A list of members is contained in Attachment A.

The Charge to the Affordable Housing Work Group (Attachment B) called for the group to determine the most appropriate vehicle for affordable housing production, define its mission, propose a budget and identify possible sources of funding, and propose projects that it might undertake.

The group held seven meetings from July through November 2003. After obtaining input from Ken Billingsley of the Northern Virginia Regional Commission (demographics), David Jeffers of the Fannie Mae Northern Virginia Partnership Office, Roy Priest of the National Congress for Community and Economic Development, an association for community development corporations, and Walter Webdale, President of AHC, Inc., as well as staff from Housing (affordability; preservation opportunities) and Planning and Zoning (potential sites for development/redevelopment) the Work Group members established the following guiding principles for the structure of an effective affordable housing organization:

> The organization must be sufficiently flexible to meet changing needs of the community and market availability.
> The organization must be able to move quickly to secure deals.

The Work Group offers the following recommendations for City Council consideration:

RECOMMENDATIONS FOR NEW HOUSING DEVELOPMENT ORGANIZATION

A. MISSION

The mission of the proposed organization is to produce and preserve affordable housing, primarily, but not limited to, multi-family rental housing. It is intended that housing provided through the efforts of this organization will remain affordable in perpetuity. The City of Alexandria will be the organization's primary focus.

B. TARGET POPULATION:

Multifamily rental housing should serve households with incomes up to 60% of the metropolitan area median income, and should serve a range of incomes within this category. Some projects may be of mixed income, with rents paid by higher income market rate tenants helping to subsidize rents for the target income group. Sales housing may serve households with higher incomes, but no greater than 100 % of area median income.[1]

Unless precluded by requirements of any of the funding sources used to finance a project, priority will be given to households who live or work in the City of Alexandria.

C. TYPES OF ACTIVITY

The organization will carry out the following types of activity:

1. Development or preservation of affordable housing opportunities through acquisition/rehabilitation of existing properties
2. Development of new affordable housing opportunities through site acquisition and new construction
3. Provision for the operation and management of such housing, which may include the provision of resident services.

In addition to the above, and in the interest of providing housing suitable for families, emphasis will be placed on providing units with two or more bedrooms, with the exception of projects that may be developed for use by elderly persons and other special populations.

Where appropriate, projects may be mixed use, combining residential units with other uses.

D. ORGANIZATIONAL STRUCTURE

---

[1] In the aggregate, 75% of units developed by the organization should serve households with incomes no greater than 80% of median (as defined by HUD), in order to comply with the IRS "safe harbor" for non-profit 501(c)(3) organizations. Compliance with the IRS "safe harbor" also requires that, in any individual project, either 20% of the units must be affordable to households at 50% of median, or 40% of the units must be affordable to households at 60% of median.

Form a new, non-profit housing development corporation that hires its own executive director and administrative staff, but contracts from the start (and likely for a number of years until it decides to go a different way) with an existing experienced affordable housing development organization for underwriting and other development services, on a fee for service basis.

On a project by project basis, the new organization would partner with another organization (not necessarily the one under contract) to do the project, including securing land, defining and designing a financially feasible project (could be all affordable, mixed income, could have services on site, etc.) secure land use approvals, obtain financing that allows the project to succeed, construct the project and manage the project. The contract organization would not have an exclusive right to be the new entity's development partner on individual projects, and it is anticipated that different development partners could be selected for different projects. Development partners may be either non-profit or for-profit organizations.

Other characteristics of the new organization are as follows:

1. Start-up and operating expenses initially funded by the City (e.g., General Fund or Housing Trust Fund) until it develops its own sources of revenue.
2. Independent board of directors
3. Establishes relationships with banks and other lending sources, ARHA, the real estate community and City staff to seek housing opportunities.
4. Identifies potential sites in the City for development/redevelopment.
5. Advocates for the project through the planning and development process.
6. Will likely have an ownership interest in acquired rental properties.
7. Initially, property management either by development partner or by contract with a third party organization.

E. BOARD OF DIRECTORS

1. Composition

The governing Board of Directors should be composed of 9 to13 local residents or qualified non-residents representing a diverse cross-section of Alexandria. Specifically, but without having designated seats, the board members should, as a whole, possess the following attributes:

background/experience in housing industry, e.g., development, real estate, architecture, construction, affordable housing programs, etc.

background/experience in the financing industry

background/experience in other areas of the private sector

active involvement in the faith community, as evidenced by endorsement by a faith institution or other faith-based organization

active involvement in community/civic/service organizations (evidenced by endorsement by such organizations)

The Work Group strongly recommends that no elected City official serve as a voting member of the Board because of potential conflicts of interest in land use and funding decisions. However, a City representative may serve as a non-voting ex officio member, and would not be counted toward the 9 to 13 members noted above.

2. Method of initial appointment

The Work Group recommends that City Council appoint a five-member incorporating Board through a competitive process, and charge them with selecting the remaining members. An initial Board of nine members is recommended.

3. Method of subsequent appointment

The Board, possibly through a nominating committee, recruits, recommends, and appoints its own members. Any City representatives (who would be non-voting, ex officio members) would not be subject to this process and would be appointed by the City Council or the City Manager).

4. Terms of Office

Board members should serve three-year, staggered terms. However, given the Work Group's expectation that the initial Board will be a working Board, and its concern that momentum not be lost or interrupted, the Work Group suggests that consideration be given to having the initial Board members each serve at least three years, resulting in initial staggered terms of three, four, and five years, followed by three-year terms thereafter.

F. BUDGET

See Attachment C

G. CAPITAL FINANCING SOURCES

See Attachment D

ATTACHMENT A

AFFORDABLE HOUSING WORK GROUP MEMBERS
(Alphabetically by group/interest represented)

Member	Group/Interest Represented
Kerry Donley Executive Vice President Virginia Commerce Bank	Chair
Stephen L. (Lee) Weber Principal, The Holladay Corporation	Affordable Housing Advisory Committee
Reverend Lee Earl Senior Pastor, Shiloh Baptist Church	Alexandria Baptist Ministers' Conference
William Nussbaum Executive Vice President and General Counsel Mark Winkler Company	Alexandria Chamber of Commerce
Reverend Elbert Ransom, Jr. Co-Chair, AIA	Alexandria Interfaith Association (AIA)
A. Melvin Miller Chair, ARHA Board of Commissioners	Alexandria Redevelopment and Housing Authority (ARHA)
Mildrilyn Davis Director, Office of Housing	City of Alexandria
Bridgette Brown Alexandria City Public Schools Employee 2001 Graduate, Community Lodgings, Inc.	Consumers/clients
Patrice Hall Outreach Coordinator Alexandria Boys and Girls Clubs	Consumers/clients
Jon Liss Executive Director Tenants' and Workers' Support Committee	Consumers/clients

Daniel Abramson President and CEO Abramson Properties	Developer
Nancy Carson Co-chair, Housing Action	Housing Action
Herb Cooper-Levy Executive Director RPJ Housing Development Corporation	Non-profit sector
John Morland General Counsel National Housing Trust/Enterprise Preservation Corporation	Non-profit sector

STATEMENT OF CHARGE TO HOUSING DEVELOPMENT WORK GROUP

1. Determine the most appropriate vehicle for the efficient production, preservation, delivery and management of affordable housing in Alexandria -- e.g., creation of a new non-profit corporation, utilization of one or more existing non-profit affordable housing production entities, creation of a new corporation that would in turn partner with one or more existing entities. (It is anticipated that, in reaching this determination, the work group will have discussions with one or more existing non-profit production entities in the region that might be interested in undertaking concerted efforts in Alexandria.)

2. Define the mission of that affordable housing production vehicle and the scope of its housing production activities, including the types of housing opportunities to be provided (i.e., rental, ownership, single-family, multifamily) and the individuals and households (e.g., families, elderly; income levels for renters and home buyers) eligible to participate in those opportunities.

3. Identify sources of operating funds for the affordable housing production vehicle, in both the short-run and the long-run, as well as sources of donated furniture, equipment, supplies and other items. (It is anticipated that the City, at least in the short-run, would provide some operating funds. It also is anticipated that some funding would come from local private sources. Ideally, the production vehicle should become self-supporting within five to seven years, earning sufficient revenues from membership, sponsors, grants, and project fees to cover much of the operating costs.)

4. Identify the types of projects, as well as potential specific projects in the City, that would or could be undertaken by the production vehicle in its early years. (It is important to have one or two projects for the vehicle to consider and pursue soon after its formation. City expertise, along with expertise from other housing non-profits, would be available at this early stage.)

5. Prepare an initial year's budget for the production vehicle, which would include a summary of proposed expenditures and a description of the sources of funds for these expenditures.

6. If a new non-profit corporation is to be developed:

   a. Describe the backgrounds, experiences, abilities and other characteristics that should be reflected in the new corporation's board of directors.

   b. Prepare the articles of incorporation for the new corporation, which would be submitted to City Council for its review.

c. Identify individuals who might serve as members of the new corporation's board of directors.

In carrying out this charge, the work group will draw on all available resources, including those of the City.

FIRST YEAR BUDGET FOR THE NEW ENTITY

Personnel:

Executive Director	$ 80,000
Administrative Assistant	35,000
Benefits at 25% of salaries	28,750
Total Personnel:	$143,750

Non-Personnel:

Technical Resources (e.g. consultants)	50,000
Due Diligence (e.g. CMA's, appraisals)	80,000
Rent*	-0-
Equipment	11,105
Legal	10,000
Accounting/Payroll/Audit	12,500
Subscriptions/Miscellaneous	1,500
Travel	2,000
Telephone	2,400
Office Supplies	1,000
Postage/Overnight/Courier	2,500
Printing/Copying	6,000
Total Non-Personnel:	$179,005

Grand Total: $322,755

* Assumes entity will be housed initially in rent-free office space, either donated or provided by City

ATTACHMENT D

SUMMARY OF MAJOR CAPITAL FUNDING SOURCES FOR AFFORDABLE HOUSING DEVELOPMENT

Alexandria Redevelopment and Housing Authority (ARHA)

As a public housing authority, ARHA may issue **tax exempt bonds** to finance the construction or acquisition and rehabilitation of privately development rental properties in which a percentage of the units are committed to low income families for the life of the bonds. Generally, the minimum requirement is that either 20% of the units must be affordable to households at or below 50% of median income, or 40% of the units must be affordable at 60% of median income. In tax-exempt bond financed housing, rents are set to be affordable at the designated income level, using a formula that "assigns" a family size to each unit size for that purpose (i.e., a two bedroom unit must be affordable to a three-person household). The housing authority monitors the properties for compliance.

City of Alexandria

Community Development Block Grant (CDBG) Program
Code of Federal Regulations - 24 CFR Part 570

The CDBG program is a federal program that provides annual grants on a formula basis to entitled cities and counties to develop viable urban communities by providing decent housing and a suitable living environment, and by expanding economic opportunities, principally for low- and moderate-income persons. CDBG funds may be used for a range of housing and community development activities, though new housing construction is not an eligible activity under the program. The FY 2004 CDBG allocation to Alexandria is $1,533,000. The City currently uses its CDBG funds to provide housing rehabilitation assistance to income-eligible homeowners; homeownership opportunities for low- and moderate-income homebuyers; transitional housing aid, winter emergency shelter and furniture storage assistance to homeless families; and accessibility modification assistance to low- and moderate-income renters; as well as to identify and eradicate illegal housing discrimination through fair housing testing.

HOME Investments Partnership Program (HOME)
Code of Federal Regulations - 24 CFR Parts 91 and 92

The federal HOME program provides formula grants to states and localities to expand the supply of affordable housing for very low and low-income households. Eligible HOME activities include homeownership assistance, housing rehabilitation, tenant-based rental assistance and housing construction. Alexandria's FY 2004 allocation is $909,647. The City uses some of the monies for the Homeownership Assistance Program (HAP) and the Home Rehabilitation Loan Program for low and moderate income persons. Monies are also used to partially fund the

Housing Opportunities Fund (see description below).

Housing Opportunities Fund (HOF)

In February 2002, the City established the HOF to provide a local resource to support the development and preservation of affordable rental and sales housing in the City. The HOF has been funded at $1 million per year in FY 2002 through FY 2004 from three sources; the Housing Trust Fund ($400,000), City General Fund ($300,000), and the HOME Program ($300,000). Private non-profit or for-profit developers may apply for funds for feasibility analyses, project predevelopment, acquisition, rehabilitation, or new construction. HOF monies are generally intended for gap financing as second (or other subordinate) trust loans. Currently HOF has $2,650,000 available.

Housing Trust Fund (HTF)

The City established the HTF, consisting of voluntary formula contributions from developers of new residential or commercial construction, to provide monies for a range of affordable housing initiatives. Activities funded through the HTF have included housing acquisition or rehabilitation, development of sales housing, homeless and transitional housing support, assistance to homebuyers, and development and preservation of affordable housing. HTF funding is more flexible than using City allocations of federal funds, because federal statutory and regulatory limitations on program activities and compliance do not apply. The HTF currently has over $4 million in uncommitted funds.

Capital Improvement Program (CIP)

The City's Capital Improvement Program, funded by a combination of General Obligation Bonds and other revenues, is typically used for the protection of the City's investment in existing physical assets and for the planning, construction or purchase of major new facilities. The Capital Projects Fund has been used during FY 2003 and FY 2004 for certain activities to support the Alexandria Redevelopment and Housing Authority's redevelopment of the Samuel Madden Homes, and the Affordable Housing Work Group wishes to include it as a possible source of funding for City-supported affordable housing projects.

The Community Reinvestment Act (CRA)
Code of Federal Regulations - 12 CAR parts 25, 228, 345, and 563e

Enacted by Congress in 1977 (12 U.S.C. 2901) and implemented by federal regulation, the Community Reinvestment Act (CRA) is intended to encourage depository institutions such as banks to help meet the credit needs of the communities in which they operate. The CRA requires that federally-insured depository institutions undertake activities and provide services that will meet the credit needs of its entire community, including the credit needs of low and moderate income members of the community. Although the CRA is not a direct funding source, institutions may meet the stipulations of CRA by making loans to community organizations, including housing development. Almost all financial institutions, with the exception of certain small institutions, are subject to CRA data collection and reporting requirements. The financial institution's record in meeting community needs is evaluated periodically. An institution's record is taken into account in considering applications for deposit facilities, including mergers and acquisitions. CRA examinations are conducted by federal agencies responsible for

supervising depository institutions: the Board of Governors of the Federal Reserve System (FRB), the Federal Deposit Insurance Corporation (FDIC), the Office of the Comptroller of the Currency (O.C.), and the Office of Thrift Supervision (OTS).

The Federal Home Loan Bank of Atlanta (FHLBA)

Federal Home Loan Banks (FHLBs) are privately capitalized, cooperative government-sponsored enterprises that were created by Congress in 1932. The FHLB system consists of 12 regional FHL Banks, with the Federal Home Loan Bank of Atlanta (FHLBA) as the designated regional funding source for community financial institutions in Virginia. Financial institutions that are members of the FHLB system have access to financing and funding sources available for community financial institutions, commercial banks, credit unions and insurance companies. Affordable housing and community development programs can apply for FHLBA funds, but only through a FHLBA member institution. The FHLBA provides the following affordable housing programs:

Affordable Housing Program (AHP) - AHP awards provide subsidized loans and grant monies for worthwhile homeownership or rental initiatives, including acquisition, rehabilitation, new construction and principle reduction. Awards are made to FHLBA member institutions working in partnership with affordable housing providers.

Community Investment Program (CIP) - The CIP offers long-term advances for residential loans benefitting low- and moderate-income families. CIP funds provide financing to FHLBA member financial institutions at rates from 5 to 22 basis points below regular advances.

Predevelopment Fund - The Predevelopment program funds certain predevelopment expenses in support of eligible projects under the Affordable Housing Program (AHP).

Affordable Multifamily Participation Program (AMPP) - Through AMPP, FHLBA purchases participation interests in qualified, affordable multifamily housing loans from approved consortia dedicated to low- and moderate-income multifamily lending.

The Federal Home Mortgage Association (Fannie Mae)

Fannie Mae is a private corporation which purchases FHA-insured mortgages from lenders. Fannie Mae works with lenders to provide various financing options for multifamily projects, including credit enhancements, and a variety of conventional mortgage products. Financing options include the American Communities Fund, a community development financing source which invests debt or equity in housing developments that support affordable housing development, and neighborhood and community revitalization efforts.

The Federal Home Loan Mortgage Corporation (Freddie Mac)

Freddie Mac is also a private corporation which purchases mortgages from lending institutions originating both single and multifamily loans. Freddie Mac serves as a source of multifamily financing through a range of financing products including five to twenty-five year balloon mortgages, credit enhancement products and long-term fixed rate up-front loans. Freddie Mac also offers a "forward commitments" product which is used in conjunction with the LIHTC program to eliminate the risk of increases in mortgage rates by locking in the rate for permanent financing before construction begins.

Neighborhood Reinvestment Corporation
Code of Federal Regulations, Title 24, Volume 5 (Revised as of April 1, 2003)

The Neighborhood Reinvestment Corporation was established by Congress in the Neighborhood Reinvestment Corporation Act (title VI of the Housing and Community Development Amendments of 1978, Pub. L. 95-557, October 31, 1978). The Corporation is not a department, agency, or instrumentality of the Federal Government, but is authorized to receive and expend Federal appropriations and other public and private revenues to conduct a variety of programs designed primarily to revitalize older urban neighborhoods by mobilizing public, private, and community resources at the neighborhood level.

NRC programs include:

(1) *Neighborhood Housing Services*, which assist local communities in the development, expansion and provision of technical services to local Neighborhood Housing Services (NHS) programs. NHS programs are based upon partnerships of community residents, and representatives of local governments and financial institutions, and can include rehabilitation counseling, construction assistance, financial counseling, loan referrals and loans at flexible rates and terms to homeowners who do not meet private lending criteria. Programs and strategies to remove blighting influences, obtain improved public services and amenities, and improve the neighborhood's image. The Corporation provides grants, training, information and technical services to NHS programs.'
(2) *Mutual Housing Associations*. The Corporation supports the organizational development of, and provides technical assistance to, Mutual Housing Associations (private, nonprofit organizations which own, manage and continually develop affordable housing). Mutual Housing residents are members of the Association which owns and manages their buildings. Mutual Housing Associations commit to use all resources in excess of operating and maintenance costs for the production of additional units.
(3) *Neighborhood Preservation Projects*. The Corporation identifies, monitors, evaluates and supports through demonstration grants and technical assistance other promising neighborhood preservation strategies based on local, public-private partnerships.

(4) *Programmatic Supplements*. NRC has developed replicable programmatic tools and models for which are provided to NHS programs, either as a technical resource or in combination with other NRC Grants. NRC offers four types of strategies:

A. Neighborhood Economic Development and Commercial Revitalization Strategies - Tools designed to stabilize and enhance the economic base of NHS neighborhoods through economic development and commercial revitalization.

(ii) Housing Development Strategies - Are intended to addresses the shortage of affordable, quality housing available to low to moderate income families in NHS neighborhoods, reduce blighting, and develop home ownership opportunities. Housing Development Strategies include the following four programs:

(A) The Owner Built Housing Program - a supervised housing construction process that helps moderate-income homeowners to collectively build their own homes. The NHS provides technical assistance with private lenders and public bodies provide financing.

(B) The Owner Rehab Housing Program assists low to moderate income families in collectively rehabilitating existing blighted and vacant structures.

(C) The Infill Housing program provides assistance to NHS programs in building new units on vacant land to meet the needs of prospective lower income homeowners.

(D) The Urban Subdivisions program focuses on providing low cost, new housing for low-to-moderate income families on tracts of land suitable for the construction of 20 or more units.

(iii) Problem Properties Strategies Program - assists NHS organizations in addressing specific problem areas beyond the scope of basic NHS services and typical financial resources. NHS organizations can seek support in assisting tenants to purchase and improve the physical condition of target blocks, to develop housing and service facilities for properties with special populations, and to stimulate private reinvestment and new conventional mortgages in the community.

(5) *Apartment Improvement Program* - Provides an effective, economical means of revitalizing and preserving neighborhoods with multi-family housing for the benefit of the current residents in partnership with community representatives, property owners and managers, financial institutions and local government.

(6) *Neighborhood Housing Services of America*. NRC supports Neighborhood Housing Services of America (NHSA), an independent, private, non-profit corporation which provides a variety of services to local NHS programs, including a secondary market for NHS revolving loan fund loans, and the strengthening of private sector resources available to the network of local NHS neighborhoods and organizations.

Virginia Housing Development Authority (VHDA)

The Virginia Housing Development Authority (VHDA) was created by the Virginia General Assembly to create affordable housing opportunities for low and moderate income households in Virginia. VHDA underwrites home mortgage loans and provides financing for multifamily rental projects for low and moderate income households. VHDA administers the state's Low Income Housing Tax Credit Program (LIHTC) and participates in federal programs to finance housing and community development activities in the state.

Virginia Housing Fund Multifamily Loan Program

The Virginia Housing Fund (VHF) provides financing for financing multifamily projects at below market interest rates with an amortization option of up to 30 years. The maximum loan amount is $750,000 per project. Included in the VHF is VHDA's Multifamily Sponsoring Partnerships and Revitalizing Communities (SPARC) Program, which encourages partnerships to revitalize communities and create opportunities to address identified housing needs. SPARC financing is available to for profit and nonprofit housing developers for eligible affordable housing development projects at an interest rate of 4.5 percent.

VHDA Bond Financing

VHDA provides a variety of tax exempt, taxable and blended bond financing programs for multifamily housing. VHDA's website lists the following categories.

- *Alternative Minimum Tax Bonds* are tax-exempt bonds that require that 40% of the units be occupied by households at or below 60% of area median income. Term is up to 30 years.
- *Tax-exempt Refunding Bonds* are tax-exempt bonds issued by local bond issuers for short-term loans and replaced by VHDA with loan terms of 20 to 30 years. Income restrictions and rent limits apply to projects using this financing.
- *Taxable Bonds* are bonds that carry market interest rates that are adjusted on a relative risk basis. Loans funded with taxable bonds are typically used to finance new projects using federal Low-Income Housing Tax Credits. The bonds permit other uses such as acquisition and rehabilitation or unsubsidized new construction. Affordability and income restrictions are dictated by the tax credit allocation. If tax credits are not involved, available units must be leased buy tenants with incomes of less than 150% of the area median income.
- *The Forward Permanent Loan Option* allows VHDA to issue loan commitments by locking in the rate for permanent financing before construction begin, to permit borrowers to obtain construction loans from their bank of choice.

- *Low Income Housing Tax Credit (LIHTC) Program*

The LIHTC is based on section 42 of the Internal Revenue Code, enacted in 1986 and made permanent in 1993. By providing a credit against tax liability or a dollar-for-dollar reduction in the amount of liability, the LIHTC is an incentive for individuals and corporations to invest in the construction or rehabilitation of housing for low-income families, and investors purchase credits to provide a capital subsidy in the development of affordable rental housing.

Each state designates an agency to administer the LIHTC program, and VHDA is the administrator for Virginia. VHDA must develop, review and revise its plan for allocating the credits, consistent with the state's consolidated plan. Federal law requires that the allocation plan give priority to projects that (a) serve the lowest income families and (b) are structured to remain affordable for the longest period of time. Two types of tax credit allocation programs are available, a nine percent competitive allocation, and a four percent allocation which is used with bond financing.

The Internal Revenue Service requires that 10 percent of each state's annual tax credit allocation be set aside for projects at least partially owned by nonprofit organizations. New construction and substantial rehabilitation projects must be undertaken by, or in partnership with, a nonprofit housing developer to be eligible for **9 percent tax credit allocations**. This is a competitive annual process, and successful projects receive tax credits equal to approximately 9 percent of a project's qualified costs, each year for 10 years. (For example, in a rehabilitation project with $100,000 in qualified costs, tax credits can equal approximately $90,000 over 10 years.)

The state's remaining credits are available to nonprofit and for profit developers for projects financed through the issuance of tax-exempt bonds. Projects eligible for the **4 percent tax credit allocations** do not have to compete, and eligible projects will be funded until the state's annual allocation maximum has been committed to eligible projects.

After a project has been awarded tax credits, the owner or developer usually hires a broker or syndicator to market them. The credits, which must be taken over a 10-year period, are sold to investors on the basis of their current value. For example, a project may be awarded $1 million in tax credits. Because the credits must be spread over 10 years, investors typically discount the value to about 75-85 cents on the dollar. Thus, $1 million in tax credits would generate $750,000- $850,000 in equity for the project, minus the syndication costs.

Units that qualify for low-income housing tax credits must be affordable to low-income families and have income and rent restrictions for a minimum of 15 years. VHDA is required to monitor all tax credit projects for compliance with these restrictions and for physical condition.